

J9R5capA

argument

1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

-----x

3 CAPRI SUN GmbH,

4 Plaintiff,

New York, N.Y.

5 v.

19 Civ. 1422 (PAE)

6 AMERICAN BEVERAGE CORPORATION,

7 Defendant.

8 -----x

9 September 27, 2019  
4:10 p.m.

10 Before:

11 HON. PAUL A. ENGELMAYER,

12 District Judge

13  
14 APPEARANCES

15  
16 MAYER BROWN, LLP (NY)

Attorneys for Plaintiff

17 BY: A. JOHN MANCINI

18 BY: JONATHAN W. THOMAS

-and-

19 BY: KATHERINE STEAPPER, In-house counsel

20 HOLLAND & KNIGHT, LLP

Attorneys for Defendant

21 BY: JOSHUA C. KRUMHOLZ

22 BY: DAWN L. RUDENKO

J9R5capA

argument

1 (Case called)

2 THE DEPUTY CLERK: Counsel, state your appearance for  
3 the record, please.

4 MR. MANCINI: Good afternoon, your Honor. John  
5 Mancini on behalf of Mayer Brown for plaintiff Capri Sun.

6 THE COURT: Good afternoon, Mr. Mancini.

7 MR. THOMAS: Good afternoon, your Honor. Jonathan  
8 Thomas of Mayer Brown, also on behalf of Capri Sun.

9 THE COURT: Very good. Good afternoon.

10 MR. MANCINI: And your Honor with your permission we  
11 have in house counsel Ms. Katherine Steapper from Capri Sun.

12 THE COURT: Good afternoon, Ms. Steapper. Always  
13 happy to have you here.

14 For the defense? You may be seated, front table.

15 MR. KRUMHOLZ: Good afternoon, your Honor. Josh  
16 Krumholz from Holland & Knight on behalf of defendant ABC.

17 MS. RUDENKO: Good afternoon, your Honor. Dawn  
18 Rudenko from Holland & Knight also on behalf of defendant ABC.

19 THE COURT: Good afternoon to you.

20 I apologize for keeping you waiting. I had some  
21 translation issues at the previous conference which made it  
22 move much more slowly than I had ever anticipated but I  
23 appreciate everyone's forbearance.

24 So, to begin with, thank you for the very interesting  
25 and well done briefs in the case. It is quite an interesting

J9R5capA

argument

1 problem and not one that has any resemblance to any case I have  
2 had. I think I will be best off simply putting questions to  
3 counsel rather than having a freestanding argument because I  
4 have already read your briefs.

5 Let me begin with plaintiff's counsel, Mr. Mancini.  
6 Will you be taking the lead?

7 MR. MANCINI: Yes, your Honor.

8 THE COURT: To begin with, I have now read the series  
9 of cases in this line. Is there any case that involves the  
10 specific posture here involving a functionality defense? In  
11 other words, there are patent cases, there are trademark cases;  
12 I haven't come upon one involving a trademark case where it's a  
13 functionality defense that the *Lear* balancing test is applied  
14 to. Is there a case that specifically raises that?

15 MR. MANCINI: We don't think that there is, your  
16 Honor.

17 THE COURT: Let me ask, this is a yes or no because I  
18 am trying to get a sense; defense counsel, same answer?

19 MR. KRUMHOLZ: Yes. I would go one step further and  
20 say there is no product design case, period, in this particular  
21 area.

22 THE COURT: So back to you then, Mr. Mancini. I just  
23 wanted --

24 (Defendant and counsel conferring)

25 MR. MANCINI: Sorry.

J9R5capA

argument

1 THE COURT: Okay. Back to you.

2 Can you help me, as one who is not well-versed in the  
3 area, when a functionality defense is litigated what's the  
4 question being asked and what does the discovery look like to  
5 probe functional?

6 MR. MANCINI: Yes.

7 So, in trademark law generally, when one seeks to  
8 contest the validity of a trademark, one of the grounds upon  
9 which one would seek to contest it, for example, you can  
10 contest it on the basis that it is a generic term, a  
11 descriptive term, or that it is functional. And the  
12 functionality defense to a design mark would go that some  
13 feature of the claim designs has some function such as it  
14 serves, like potentially the Coca-Cola glass bottle serves some  
15 function in retaining the liquid rather than the unique, iconic  
16 shape.

17 THE COURT: So, if one were litigating that question,  
18 what does discovery look like on that point? In other words is  
19 that something that can be evaluated simply by examination of  
20 the drawing or the papers submitted to the trademark office?  
21 Is this an area of expertise? I am just trying to get a sense  
22 of what is at stake here when they're talking about discovery  
23 into functionality. How does functionality get litigated?

24 MR. MANCINI: Well, interesting question.

25 There is a pretty good analogy here because in the

J9R5capA

argument

1 prior litigation between essentially the same parties, the  
2 predecessor interests of the current defendant, there were  
3 numerous discovery requests that were propounded to this --

4 THE COURT: Be that as it may, but my understanding is  
5 the discovery only got but so far there. I am trying to  
6 understand not what happened in prior litigation but just if  
7 this were to go the distance, if your application were denied  
8 and we were to have discovery on functionality, what would it  
9 in fact look like? And I assume that's a question for the  
10 Court.

11 MR. MANCINI: Yes. Well, I would go back to the  
12 examples here.

13 So, for example, from memory, one of the types of  
14 requests and requests for admission that ABC has before is does  
15 the shape promote the ability of the Capri Sun package -- and  
16 we have some here -- to stand up.

17 THE COURT: Right.

18 MR. MANCINI: And their argument would be that that  
19 design, because presumably they would claim it has some  
20 functional feature, our client would not be able to maintain  
21 the design mark.

22 THE COURT: Right. So that would be the argument in  
23 favor of it being functional rather than properly trademarked  
24 but what would the -- would I be seeing battling experts?  
25 Would it be something that instead could be resolved simply

J9R5capA

argument

1 based on paper submissions made to the trademark office? I am  
2 trying to understand what, as a matter of discovery, how we  
3 would test the proposition that that which you are seeking,  
4 that which you have trademarked is, in fact, functional.

5 MR. MANCINI: So, I think it would be a combination of  
6 both factual discovery and potentially expert testimony.  
7 Presumably, if ABC were able to get around the no contest  
8 provision.

9 THE COURT: I am asking you to assume that.

10 MR. MANCINI: Assuming that, then they presumably  
11 would come forward with likely factual testimony and perhaps  
12 expert testimony that suggests the unique iconic design of this  
13 somehow is functional.

14 THE COURT: How involved would that process be? In  
15 other words how -- I know that patent litigation is notorious  
16 for being cost-intensive. This is a somewhat more refined  
17 discrete issue. How involved would be plenary discovery on the  
18 functionality question?

19 MR. MANCINI: I don't think it would be unsubstantial,  
20 your Honor. I do think that it is quite likely that ABC would  
21 come forward with expert testimony to try to proffer that some  
22 aspects of the design are functional because, presumably, they  
23 allow the pouch to stand up. We would presumably rebut with an  
24 expert of our own, I suspect there would be extensive document  
25 discovery on that question.

J9R5capA

argument

1           THE COURT: What would the nature of the document  
2 discovery be?

3           MR. MANCINI: From what we have seen so far, trying to  
4 revisit all over again --

5           THE COURT: Sorry. Just help me. I am not worried  
6 about what we have seen so far, I am trying to understand.  
7 What discovery would be aimed at the functionality question?  
8 In other words, if it is a question of expertise -- would the  
9 discovery be essentially testing, in point of fact, why the  
10 pouch is designed in a particular way historically, whether  
11 functional aspects went into its construct?

12          MR. MANCINI: Yes. And I also think that likely it  
13 would be examining the entire file history of the trademark  
14 application that led to the registration of the design pouch.

15          THE COURT: Okay. All right.

16          MR. MANCINI: Which is a pretty voluminous file.

17          THE COURT: As to functionality, again putting aside  
18 for the moment the legal issue before me and just trying to  
19 understand a little better what the possible outcomes could be.  
20 I mean, I understand one outcome is that this whole thing is  
21 functional and therefore outside the ambit of properly  
22 protectable trademarks and another possibility is none of it is  
23 functional and that it is entirely fairly protected. Is there  
24 a middle ground in which, hypothetically speaking, a court  
25 could find that some dimension of the construct here is

J9R5capA

argument

1 functional and some dimension is not functional and properly  
2 trademarked?

3 MR. MANCINI: That's a very interesting question.

4 I suspect there could be a scenario where the Court  
5 could so find but the risk is this. This mark is 33 years old.

6 THE COURT: Right.

7 MR. MANCINI: It has been registered since 1986. To  
8 find that the design is functional risks invalidating it,  
9 despite having gone to the trademark office and having had the  
10 registration in place for 33 years and litigating against  
11 parties. In that middle ground that you describe, the risk  
12 would be that the Court might be forced to find that the  
13 trademark, therefore itself, is invalid.

14 THE COURT: Right. That's a business risk for you but  
15 I am asking if we litigate that point and if trademark is found  
16 to be invalid, you will have gotten 33 years worth of use out  
17 of it before that happened but I understand why it is a  
18 regrettable business risk from your client's perspective but  
19 from the perspective of a Court having to resolve it, is it  
20 correct that there is at least an imaginable scenario under  
21 which some dimension of what is trademark now is functional and  
22 some is not.

23 Is there a split decision here that is a possible  
24 outcome?

25 MR. MANCINI: It is possible. There is theoretically



J9R5capA

argument

1 a path where the Court could go that way. That, fine, although  
2 we could find, for example that some aspects of the pouch are  
3 functional, they're not the aspects that are in common between  
4 the two and therefore there is still a claim.

5 THE COURT: Right.

6 MR. MANCINI: Now remember, even if the Court were to  
7 find that the trademark were functional and therefore valid,  
8 there is still common law claims and unfair competition claims.  
9 There is still other ways in which ABC could be found to be  
10 infringing and therefore in violation because, fundamentally,  
11 trademark law is more akin to false advertising claims and  
12 unfair competition claims.

13 THE COURT: Understood.

14 Now to broaden out the discussion about functionality  
15 a little bit more, is another way of saying functional to say  
16 that if there is an area of law that permits this to be  
17 protected it is called patent? In other words, the  
18 functionality serves as an exception, in effect, to that which  
19 is trademarkable. It doesn't mean it is not protectable, it  
20 means you seek your rights in the world of patent. Is that an  
21 essentially accurate way of capturing what functionality  
22 doctrine is?

23 MR. MANCINI: I would say it slightly differently,  
24 your Honor.

25 THE COURT: Go ahead.

J9R5capA

argument

1           MR. MANCINI: I believe ABC's argument is there is one  
2 way to argue that based on patent rights that a trademark  
3 holder may have once had, that that could influence the  
4 question as to whether or not features claimed in a trademark  
5 are therefore functional. I think that might be the more  
6 precise way it describe it.

7           THE COURT: Let's suppose that a Court were to find  
8 the design here functional, and let's suppose the time period,  
9 as appears to be the case for getting this patented, is past.  
10 Is there any place you can go to get some other form of  
11 protection for what you have here?

12          MR. MANCINI: Not registrable. Great question. Not a  
13 registration. At that point we would be left with common law  
14 rights such as unfair competition, claims for false designation  
15 of goods. Common law claims.

16          THE COURT: And how would that work? In other words,  
17 hypothetically, let's suppose that this was found to be  
18 functional -- again, not making any finding, far from it, I am  
19 trying to understand how the doctrine works. If the Court were  
20 to find that this was entirely functional, since patent is out  
21 of the question now, patent protection, and since the  
22 functionality determination would obviate any need or ability  
23 or claim for trademark, what would the nature for a common law  
24 claim against the defendants be? What would they be doing that  
25 isn't, in effect, occupied by the trademark field?

J9R5capA

argument

1 MR. MANCINI: Yes. Excellent question.

2 There is actually a provision of the Lanham Act called  
3 Section 43A that also gives common law rights. So even our  
4 client claims for registration, which is Section 32 of the  
5 Lanham Act --

6 THE COURT: Right.

7 MR. MANCINI: -- even if this registration were deemed  
8 to be invalid, there are still common law rights and the Court  
9 would then still look to common law and Courts have looked at  
10 analogous situations and looked at whether or not that design,  
11 in and of itself, creates common law rights does it, for  
12 example, cause confusion in the marketplace amongst consumers.

13 THE COURT: So, even if it is unprotectable federally  
14 in patent or trademark, if, for example, there was something  
15 that the defendants did that was trying to piggyback on  
16 Capri Sun's unique look and feel here, even if it is not  
17 trademarkable, that might be a source of state law relief.

18 MR. MANCINI: Let me make it more precise.

19 THE COURT: Please.

20 MR. MANCINI: It would be a source of state law relief  
21 and there are ancillary state law claims but it would still be  
22 a source of federal claim relief under 43 of the Lanham Act.  
23 43 of the Lanham Act says even if your trademark is not  
24 registered, you still have common law rights. To assert  
25 trademark claims in the U.S. does is not always require you to

J9R5capA

argument

1 register. What registration does is it gives you a presumption  
2 of validity, for example.

3 THE COURT: In other words, is there a functionality  
4 defense to a non-registered trademark?

5 MR. MANCINI: That's where the difference lies,  
6 correct.

7 THE COURT: That's where the what?

8 MR. MANCINI: That is where the difference lies.

9 In a nonregistered trademark then the functionality  
10 defense comes into play and the burdens shift.

11 THE COURT: If it is a registered trademark as you  
12 have now --

13 MR. MANCINI: If it is registered trademark, validity  
14 is presumed.

15 THE COURT: Right.

16 MR. MANCINI: And the burden would be upon the  
17 infringer.

18 THE COURT: Right. But if it is not registered it is  
19 still at issue but the burden is on you.

20 MR. MANCINI: The burden would then be upon us.  
21 Because it is unregistered the party claiming design mark would  
22 have to establish that design is nonfunctional.

23 THE COURT: So I take it that as to the common law  
24 claim, you would have common law claims even if you completely  
25 lose the motion here.

J9R5capA

argument

1 MR. MANCINI: Correct.

2 THE COURT: And even if, in fact, worse than that for  
3 you, we were to have discovery and litigation and I were to  
4 find the functionality issue, I was to find this functional,  
5 will you still have common law claims or would a finding by me  
6 of functionality defeat the common law claims, i.e., the  
7 nonregistered claims?

8 MR. MANCINI: Great question.

9 It would depend on how far the Court's findings on  
10 functionality went because if there are aspects of the  
11 packaging --

12 THE COURT: Right.

13 MR. MANCINI: -- that are not covered by that finding,  
14 then we would still have the ability to argue that those  
15 aspects are nonfunctional.

16 THE COURT: I see. If I were to find across the board  
17 functionality, that literally every dimension of this were  
18 functional -- again, just hypothetical -- at that point that  
19 clears the decks of all your claims?

20 MR. MANCINI: If, under that hypothetical that were  
21 so, with all due respect difficult to do with a package like  
22 this then, yes, then it likely would cause some issues with  
23 respect to --

24 THE COURT: What is the aspect of the packaging here  
25 that you are suing on that is least susceptible to an argument

J9R5capA

argument

1 of functional? I understand in the end you would contend, if  
2 you had to that none of this is functional, but what is the  
3 dimension that is, where your win is clearest from your  
4 perspective?

5 MR. MANCINI: I actually think none of it is  
6 functional.

7 THE COURT: I know that.

8 MR. MANCINI: But I would point your Honor to the  
9 iconic shape of this package. But I don't know if you can tell  
10 but if you look at it -- and I am holding it up for the court  
11 reporter -- a copy of the Capri Sun all natural wild cherry  
12 package, one of the packages implicated in this case, you will  
13 note that it sort of has a belly feature.

14 THE COURT: A belly feature?

15 MR. MANCINI: A belly feature, right. It has an  
16 iconic look because sometimes Capri Sun will market it as a  
17 face, as an anthropomorphic feature. There are many ways to do  
18 an aluminum pouch -- it could be a square, it could be shaped  
19 differently in terms of its tapering.

20 THE COURT: Right.

21 MR. MANCINI: This iconic feature was well thought out  
22 by our client. Its unique design --

23 THE COURT: In other words you are not trying to  
24 protect all pouches, just one with your belly feature?

25 MR. MANCINI: Well, that is one of the aspects of it

J9R5capA

argument

1 that is unique, yes, your Honor.

2 THE COURT: Let me try it this way. You are trying to  
3 protect all pouches but the belly feature is --

4 MR. MANCINI: No, no. I didn't go that far. I didn't  
5 go that far.

6 We are not trying to protect all packages. In fact,  
7 one of the arguments that we have made in our brief that I  
8 think your Honor has seen is that to enforce the settlement  
9 agreement and license agreement no contest would simply mean  
10 that ABC is free to offer a juice in an aluminum pouch of a  
11 different shape that is not confusingly similar.

12 THE COURT: And what are the parameters of what your  
13 trademark protects in terms of the shape of the pouch?

14 MR. MANCINI: What I would say is at the end of the  
15 day that's a matter of the likelihood of confusion analysis --

16 THE COURT: Right.

17 MR. MANCINI: -- which is for the Court to decide.  
18 One of the ways we can prove it would be, for example, with  
19 consumer surveys to establish that.

20 THE COURT: Right. But, in other words, as you have  
21 drawn the trademark do you purport to loop in all pouches or  
22 only pouches within some defined parameter?

23 MR. MANCINI: Only pouches within a certain shape and  
24 design which is actually exhibited, the image is actually  
25 shown, correct? And I am holding undisputed statement of facts

J9R5capA

argument

1 document --

2 THE COURT: Paragraph 3, right.

3 MR. MANCINI: Correct, -1.

4 THE COURT: But here is the question. I am looking at  
5 the sketch on paragraph 3 and it doesn't at least, maybe there  
6 is something else that was left out for economy's sake but this  
7 picture does not contain measurements or something that would  
8 let me know, you know, what the outer bounds are on, let's say,  
9 the circumference of the base of the pouch or something like  
10 that. How does one know, how would a competitor know at what  
11 point you are no longer, in terms of the shape, claiming  
12 trademark protection?

13 MR. MANCINI: Yes. Great question.

14 So, in trademark law, when design marks are submitted,  
15 they're done in this type, black and white, which are done in a  
16 linear way to try to suggest a three-dimensional shape. And  
17 you can see by the dotted lines underneath, which are  
18 exhibiting the belly feature, it is demonstrating the  
19 three-dimensional shape of the anthropomorphic belly feature.

20 THE COURT: Right, but, in other words, if one were to  
21 look at this, one might conclude that the shape at the base is  
22 a little more oval than purely round and it is, if you will, if  
23 you are looking from the right to the left here, it is a little  
24 more narrow than wide and so, hypothetically, if I were a  
25 competitor and I looked at that, I might say to myself, boy, if



J9R5capA

argument

1 I just do a pure circle at the bottom as opposed to this more  
2 oblong oval design that's here, maybe I'm outside of what  
3 Capri Sun says is protected by its trademark.

4 How does the competitor know kind of what the outer  
5 bound of what you're claiming trademark protection are on the  
6 shape?

7 MR. MANCINI: There is many ways. The simplest way is  
8 to look at the pouch that we sell that embodies the registered  
9 trademark.

10 THE COURT: Right. Can you bring the pouch up,  
11 please?

12 MR. MANCINI: Yes. By all means, your Honor.

13 THE COURT: I think I will be able to illustrate my  
14 point better. Thank you.

15 So, I am looking at the pouch and I take your point  
16 that -- I guess, depending how one squeezes it, it could be a  
17 very squeezed circle or it could be, if you squeeze it at the  
18 long ends you could get a little more towards a circular base.  
19 I guess the question is, and it is hard to me to know what the  
20 resting norm is here. Where I am going is I am trying to  
21 understand, is there some objective way to figure out at what  
22 point you don't claim a trademark on the shape of the bottom?

23 MR. MANCINI: Great question.

24 So, unfortunately, in trademark law ultimately that's  
25 the analysis of consumer confusion which is aided by consumer

J9R5capA

argument

1 surveys, sometimes experts but I would say, put simply, you can  
2 look at thee features. The bottom is essentially elliptical.  
3 You can see now the dotted line smiley face almost on the  
4 bottom of the front of the pouch, that almost looks like a  
5 smiley face.

6 THE COURT: Where is the smiley face? Oh, yes.  
7 Indicating on the face of the front. Correct. Exactly.

8 MR. MANCINI: And there are versions of this pouch  
9 that show --

10 THE COURT: If you go like this it is kind of a frown  
11 though, right?

12 MR. MANCINI: It could be. And there are versions of  
13 the pouch that in fact show the smiley face to mimic that  
14 feature, the anthropomorphic feature. So, there are many  
15 aspects that you can look at and say if I want to offer an  
16 aluminum pouch for juice, I just need to design around the  
17 elements. That's not what ABC did, by the way.

18 THE COURT: Right.

19 So, again, just trying to examine functionality. On  
20 almost any way I can squeeze this thing it stands whether it is  
21 horizontal, vertical, compressed a lot or broadened out a lot.  
22 Suppose the argument is that what makes this functional is that  
23 it permits the pouch to stand, and if that were at least a  
24 component of the defense argument is functionality, what will  
25 you say to counter that?

J9R5capA

argument

1 MR. MANCINI: I don't think that could be the strength  
2 of the argument upon which they would rise or fall because  
3 there is many ways to do an aluminum pouch that could stand.  
4 That could be a rectangular bottom.

5 THE COURT: Right.

6 MR. MANCINI: It could be square bottom. There are  
7 plenty of juice boxes that have those kinds of features and  
8 stand.

9 THE COURT: Let me shift gears a little bit. This is  
10 very helpful and I am just trying to understand this better.

11 How many licensees does Capri Sun have?

12 MR. MANCINI: Around the world or just in the U.S.?

13 THE COURT: Let's take the U.S.

14 MR. MANCINI: So, great question.

15 In the U.S., Capri Sun has an exclusive license with  
16 Kraft Heinz.

17 THE COURT: Wait. Capri Sun owns for argument for  
18 now, the trademark.

19 MR. MANCINI: Correct.

20 THE COURT: And you are saying Kraft Heinz alone --

21 MR. MANCINI: Has the exclusive license for the United  
22 States market. And so, the product sold in the United States  
23 market are sold pursuant to an exclusive licensee relationship.

24 THE COURT: Right. So, but ABC had previously also  
25 been a licensee?

J9R5capA

argument

1 MR. MANCINI: Great question.

2 A nonexclusive licensee but not to sell Capri Sun. A  
3 nonexclusive -- Kraft Heinz has an exclusive license to the  
4 trademark and the trade dress. The defendant had a  
5 nonexclusive license to use the pouch design which this one is  
6 not inflated but, were it so, you would see it to be virtually  
7 identical to this one.

8 THE COURT: Right. What I am trying to understand is  
9 I am trying to understand the universe of entities that either  
10 in the past or presently are allowed to use what you have  
11 trademarked. I am less concerned about people offering the  
12 Capri Sun product and more concerned about right to use the  
13 trademark design. Is there anybody besides Kraft Heinz who,  
14 regardless of what beverage is in here or the what outside  
15 words and pictures are, is there anybody other than Kraft Heinz  
16 who is licensed to use the trademark?

17 MR. MANCINI: Currently at the time it was only  
18 Kraft Heinz and ABC.

19 THE COURT: I see. And going back, it has been a  
20 33-year process, at any time given time has there been, let's  
21 say, more than two licensees?

22 MR. MANCINI: Oh, yes, there was at least one other.

23 THE COURT: When was that?

24 MR. MANCINI: 1991 or 1990s, approximately.

25 THE COURT: Why is it that there are so few licensees?

J9R5capA

argument

1 MR. MANCINI: Well, great question.

2 This comes back to the heart of the matter. Consumers  
3 come to know this iconic shape as affiliated with Capri Sun and  
4 that's why we are vigorous in protecting that.

5 THE COURT: Right, but protecting doesn't mean --  
6 protecting may mean against legal challenges but you might be  
7 happy to have other licensees making money for you using the  
8 shape. Why don't do you that?

9 MR. MANCINI: Great question.

10 Because trademark owners will decide whether or not  
11 the licensee has the same quality standards. For example, will  
12 the juice taste just as good so when consumers go to purchase  
13 the other product, if they are disappointed -- one of the  
14 things, and this is what trademark law seeks to protect is if  
15 they are disappointed with the taste what it could do is harm  
16 the Capri Sun mark because they may no longer come back --

17 THE COURT: Right.

18 MR. MANCINI: -- to Capri Sun and purchase our  
19 product.

20 THE COURT: Does Kraft Heinz, as part of its license,  
21 explicitly commit not to challenge the validity of the  
22 trademark?

23 MR. MANCINI: Does Kraft Heinz as part --

24 THE COURT: The only surviving licensee, have they  
25 bound themselves not to challenge the trademark whose use

J9R5capA

argument

1 they're licensing?

2 MR. MANCINI: I just can't remember, your Honor.

3 THE COURT: I assume that you would argue at least  
4 implicitly that they do but I would imagine legal counsel would  
5 probably want them to commit not to do so.

6 MR. MANCINI: As I stand here, I just can't remember.  
7 From recollection I believe they do but they clearly want to.

8 THE COURT: They clearly?

9 MR. MANCINI: They clearly want to be able to maintain  
10 the validity of the mark because it is to their benefit.

11 THE COURT: I am not asking you about the scale of the  
12 Kraft Heinz business but given what I can infer it might be, I  
13 would assume you would have estimable legal counsel making sure  
14 that a licensing agreement doesn't expose your trademark to a  
15 challenge by Kraft Heinz.

16 MR. MANCINI: Correct. As I stand here I can't  
17 remember, but there is an important fact that suggests to me  
18 that it does for this reason, which is confidential, if I may,  
19 your Honor, because it is not in this case. What I am aware of  
20 is in the Kraft Heinz agreement, permission is required by  
21 Kraft to use the pouch design for non-Capri Sun products such  
22 as its product Kool-Aid.

23 THE COURT: And, presumably, you are satisfied  
24 yourself that Kraft Heinz is not going ruin the brand, that  
25 they are putting quality enough stuff in the pouch so it is not

J9R5capA

argument

1 going to associate your pouch with sub par drinks.

2 MR. MANCINI: Exactly right. And in fact, your Honor,  
3 for a period of time, this I do know, in the course of the time  
4 with Kraft there was -- they were very explicit with what are  
5 known as quality control provisions which are about the quality  
6 of the juices. Our client, through one of its affiliates, was  
7 also providing the flavors for the juices so that we could be  
8 certain that they met our quality standards.

9 THE COURT: Got it.

10 MR. MANCINI: So, when consumers bought it, they knew  
11 it was the quality that they got to be used to with Capri Sun.

12 THE COURT: Let me then now push us a little closer to  
13 the issue at hand.

14 Reading the line of cases, *Lear* and progeny that deal  
15 with the patent context, one of the concerns that leaps out  
16 from those cases is the value in having licensees as the entity  
17 with the greatest business interest in the availability of the  
18 patentable things to be able to sue. And so, while it is a  
19 balancing test on one feature of the balance as discussed in  
20 *Lear* and progeny is it is a good thing and not a bad thing to  
21 empower a licensee to bring the patent challenge. Obviously,  
22 if you look at cases like *Rates* there is a continuum depending  
23 on how far along and what context the agreement or settlement  
24 occurred. But, conceptually, the idea of a licensee being in  
25 place to make the challenge is regarded as a good thing because

J9R5capA

argument

1 those people have a business interest in pursuing the question.  
2 So, my question to you is as follows. Let's suppose you are  
3 right here and ABC is out of bounds, they can't sue because of  
4 the settlement agreement in the earlier litigation. And let's  
5 suppose, for argument's sake, that Kraft Heinz for one reason  
6 or another chooses not to settle. Is there anybody out there,  
7 if one hypothesizes that this is actually functional, that your  
8 product is actually functional and could be vulnerable to a  
9 viable challenge, is there any entity out there with the  
10 economic interest or incentive to challenge yours as an invalid  
11 trademark on functionality grounds?

12 MR. MANCINI: Meaning is there anyone other than ABC?

13 THE COURT: Is there anybody other than ABC.

14 If you had told me that you had 25 other licensees out  
15 there and that ABC had disqualified itself by virtue of the  
16 settlement agreement I would say to myself, well, there are 24  
17 people out there, the public interest in making sure that there  
18 is somebody who can carry this torch and raise this issue is  
19 not really harmed by ABC having sidelined itself. But if all  
20 we have is Kraft Heinz and nobody else, the question naturally  
21 presents itself, if not them, if not the back table, who? Who,  
22 actually, is a viable entity to raise this functional defense?

23 MR. MANCINI: So, there are no licensees other than  
24 Kraft Heinz --

25 THE COURT: Right.



J9R5capA

argument

1           MR. MANCINI: -- and formerly ABC so that is off the  
2 table. That opportunity doesn't exist for anybody else. To  
3 the extent that anybody else tries to enter the market --

4           THE COURT: Right.

5           MR. MANCINI: -- I like to think Capri Sun does a very  
6 good job of monitoring the market and making sure that  
7 third-parties don't unfairly seek to pass off of our good will.

8           THE COURT: Sure, but let's suppose, let's indulge the  
9 hypothetical, that for all of these years you have actually  
10 been trademarking something that is functional. Indulge the  
11 hypothetical, you are not conceding anything. But, assume that  
12 it is at least vulnerable to a challenge like that and the  
13 question is, who could bring that? Would it require somebody  
14 to bring a product to market and either sue you or you sue them  
15 claiming infringement there seeking a declaratory judgment as  
16 to invalidity. Who is out there? Who has got the incentive to  
17 do that?

18          MR. MANCINI: Somebody like you described who would  
19 have, presumably, wants to enter the market with a confusingly  
20 similar package, would either make plans to or take steps to --

21          THE COURT: Right.

22          MR. MANCINI: -- to launch such a package, and  
23 presumably might either get sued by my client or might, itself,  
24 after the receipt of a potential cease and desist letter bring  
25 declaratory judgment action.

J9R5capA

argument

1           THE COURT: That's the question. In other words, if I  
2 am the would-be competitor, instead of ABC we will call it DEF.  
3 I'm DEF and I want to get into this market but I don't want to  
4 open up a plant and manufacture all of this stuff if ultimately  
5 I am going to learn that legally I'm not allowed to do what I  
6 am proposing to do. What would it take for DEF to have  
7 standing to challenge, in a declaratory judgment action, your  
8 trademark as functional?

9           MR. MANCINI: So, all they would have to have is  
10 concrete steps towards offering for sale into the market a  
11 competing product that is confusingly similar to the design.

12          THE COURT: So, if DEF basically developed a marketing  
13 plan, had somebody develop the way in which it was going to be  
14 manufactured, they wouldn't actually have to get into the  
15 market. They would write you a letter saying this is what we  
16 propose to do, your legal team would write back and say  
17 no-can-do, this is trademarked, and then you would have a  
18 crystallized dispute and DEF could go into court seeking  
19 declaratory relief?

20          MR. MANCINI: Under that hypothetical, yes, your  
21 Honor.

22          THE COURT: Okay. What are the barriers to entry  
23 here? In other words, if we were making a space vehicle we  
24 would have very substantial barriers to entry. If we are  
25 making juice packs maybe it is not so hard for somebody to get

J9R5capA

argument

1 to the point of being able to challenge your trademark. How  
2 much time, work, effort would it take for an entity to get to  
3 the point where it's economically they've done enough work to  
4 have a product design in mind so as to crystallize this  
5 declaratory judgment suit?

6 MR. MANCINI: That's an interesting question because  
7 it really goes to the heart of this case.

8 We don't think it would take much for somebody to  
9 offer an aluminum pouch for a juice drink with a sufficiently  
10 different shape that's not confusingly similar and we would  
11 think that the only reason --

12 THE COURT: Suppose they wanted to offer exactly the  
13 same shape and just argue that yours is protectable only in  
14 patent but not in trademark. Forget whether they're  
15 confusingly similar, suppose they are going for the full monty  
16 and want to mimic you entirely and simply argue that you don't  
17 have a valid trademark. How much cost, effort, would it be for  
18 them to reverse-engineer what you have done and come up with a  
19 plan that is sufficiently developed that they could then be  
20 poised to go to market assuming that they won the declaratory  
21 judgment suit?

22 MR. MANCINI: I can't sort of speculate from scratch  
23 but what I can say is this: They would certainly know places  
24 to go. ABC likely has third-party manufacturing that makes --  
25 it would not be hard to find a manufacturing entity that makes

J9R5capA

argument

1 this exact same shape if that's what they seek to do.

2 THE COURT: Right. All right.

3 Next question has to do with a prior lawsuit. I guess  
4 it's the Minnesota suit, what is the right shorthand for that  
5 suit so I am referring to it by the terms that you all refer  
6 to?

7 MR. MANCINI: I would call it the prior Minnesota  
8 lawsuit.

9 THE COURT: So, in the prior Minnesota lawsuit my  
10 understanding is that it settled with something like 27 days to  
11 go in the fact discovery period as to the calendar and that  
12 there had been a lot of demands for discovery but ultimately  
13 little discovery in fact got produced.

14 Is that about right?

15 MR. MANCINI: About right, with this clarification.

16 THE COURT: Yes.

17 MR. MANCINI: The case was actually transferred to  
18 SDNY.

19 THE COURT: Who was the Judge?

20 MR. MANCINI: Judge Kimba Wood. And after it being  
21 transferred to Judge Wood, only then and after some discovery  
22 in advance, the case settled. Just small clarification --

23 THE COURT: What discovery -- put aside demands, what  
24 discovery actually got in the hands of the other side?

25 MR. MANCINI: I would concede that little was yielded

J9R5capA

argument

1 but much was sought.

2 THE COURT: No, no, no. I know that much was sought,  
3 I don't think there is any dispute about that. I am asking you  
4 what, if anything, actually got either produced -- were any  
5 depositions taken in the case?

6 MR. MANCINI: No. I'm not aware of any depositions  
7 being taken.

8 THE COURT: Were any documents produced?

9 MR. MANCINI: I do believe some documents were  
10 produced.

11 THE COURT: What documents bearing on functionality  
12 were produced?

13 MR. MANCINI: That I'm not aware of but --

14 THE COURT: Can I assume for the purposes of the  
15 analysis the answer is none?

16 MR. MANCINI: I think as far as we know of the record  
17 that is correct, your Honor.

18 THE COURT: So, why was that? Just explain to me -- I  
19 mean, I have plenty of cases where the lawyers don't do any  
20 discovery and then I have to yell at them because the end of  
21 the discovery period has come and nobody has done any discovery  
22 but that usually involves unsophisticated counsel who kind of  
23 go into power save mode and forget about their case. I am  
24 assuming, with sophisticated counsel here, there is method to  
25 the madness. Why was there no discovery to speak of on this

J9R5capA

argument

1 point as of the point of the settlement?

2 MR. MANCINI: I can't speak to that question because I  
3 wasn't counsel in that case, your Honor, but all I can surmise  
4 from the record and from discussions having learned about that  
5 case, is because the parties decided early on that the better  
6 route was to settle it.

7 THE COURT: Right.

8 MR. MANCINI: And senior executives from both  
9 companies went to Mexico City and directly negotiated first a  
10 settlement term sheet and then a settlement license agreement  
11 to terminate the litigation.

12 THE COURT: Notwithstanding the lack of actual  
13 provision of discovery, was exactly the same issue raised there  
14 as here?

15 MR. MANCINI: Exactly.

16 THE COURT: In other words, was ABC's predecessor  
17 essentially litigating the same issue that is now being pursued  
18 in the parties' competing papers?

19 MR. MANCINI: Yes. Exactly the same issue. In fact,  
20 in the prior, if I call it the SDNY lawsuit because it got  
21 transferred here, at that point ABC's predecessor in interest,  
22 Faribault, represented by Paul Hastings -- competent counsel, I  
23 think no one disputes that -- challenges the validity of the  
24 trademark on functionality grounds in its second affirmative  
25 defense, in its third affirmative defense, and it also had two

J9R5capA

argument

1 counterclaims, the first and second counterclaim in the prior  
2 litigation sought a declaration that the pouch's trademark was  
3 invalid on functionality grounds under both federal law and New  
4 York common law.

5 THE COURT: Okay.

6 MR. MANCINI: All in the same prior litigation. And,  
7 there was a third counterclaim for cancellation of the  
8 trademark which goes back to I think your Honor's very first  
9 question.

10 So, we are uniquely in this position where this court  
11 is now empowered by federal law to revisit what the trademark  
12 office did. There was no, by the way, counterclaim for  
13 cancellation here but in the prior lawsuit it went further,  
14 ABC's predecessor in interest Faribault went further and sought  
15 affirmative relief from Judge Wood --

16 THE COURT: Right.

17 MR. MANCINI: -- that she enter an order affirmatively  
18 canceling the trademark from the Federal Register.

19 THE COURT: Be that as it may, suppose you lost here  
20 on what is being litigated now, in other words suppose that  
21 hypothetically I would have ruled that this is entirely  
22 functional, notwithstanding the absence of a claim for relief  
23 for cancellation; wouldn't that finding of invalidity on  
24 account of wholesale functionality, if you will, have the same  
25 effect?

J9R5capA

argument

1 MR. MANCINI: It would have the same effect. It  
2 wouldn't lead to the technical cancellation of the trademark  
3 but, yes, the same effect.

4 THE COURT: In practice, Capri Sun couldn't, without  
5 disturbing that adverse ruling, use its trademark as a shield  
6 against other people.

7 MR. MANCINI: Correct, except for the points I made  
8 before about the common law rights that would remain.

9 THE COURT: Okay. One moment.

10 (pause)

11 THE COURT: May I ask you what the relationship is  
12 between that which Capri Sun earlier patented going back some  
13 years and the trademark now? There is a suggestion in your  
14 adversary's brief that the trademark is essentially the linear  
15 successor to the patent atmospherically tending to suggest that  
16 it is more likely that this is functional. What is the  
17 relationship?

18 MR. MANCINI: We completely disagree.

19 THE COURT: I thought so, but tell me why.

20 MR. MANCINI: Like many brand owners, innovators,  
21 Capri Sun protects its intellectual property by what are  
22 typically referred to as multiple baskets of IP rights.  
23 Patents and utility features of the invention, designs such as  
24 the unique nature of the pouch, often times trade secrets in  
25 terms of how the pouch foil is sealed so that it doesn't spill.



J9R5capA

argument

1 That is what all innovators do, they protect their intellectual  
2 property with multiple levels of IP rights and the fact that  
3 they do is never, per se, a conclusion that because a patent  
4 precedes, for example, a design mark, it is invalid. It is  
5 what good IP holders do.

6 THE COURT: Sure, but just because good lawyers do  
7 their thing doesn't necessarily mean they don't sometimes get  
8 it wrong. I am trying to understand the difference between  
9 that which was patented on the one hand and that which was  
10 later trademarked.

11 Let me try it a little differently. At the time of  
12 the patent, had Capri Sun separately trademarked this?

13 MR. MANCINI: No.

14 THE COURT: So, if you are right that good lawyers are  
15 using belt and suspenders and protecting everything they can,  
16 for heaven's sake, why didn't Capri Sun seek trademark  
17 protection at the time of its patent? Wouldn't that be  
18 evidence that Capri Sun thought that the trademark protected  
19 something different from what it was patenting?

20 MR. MANCINI: Not necessarily so, your Honor, because  
21 one doesn't necessarily need to do that at that time because  
22 one could decide it will simply rely on its patent rights at  
23 the time to prevent third-party from unfairly competing. But  
24 what the trademark does, as per the image that your Honor was  
25 viewing before from the statement of undisputed facts, is it

J9R5capA

argument

1 protects a design, a very simple design.

2 THE COURT: The trademark does?

3 MR. MANCINI: The trademark does.

4 THE COURT: What did the patent protect?

5 MR. MANCINI: The patent protected other features of  
6 the, what we would describe as the utility of the invention.

7 THE COURT: Just explain to me in a way that I can  
8 understand the difference because the design and utility seem  
9 awful close. Help me, with reference to this specific product,  
10 to differentiate more graphically what's being protected by the  
11 patent on the one hand and the later trademark.

12 MR. MANCINI: So, again, from memory because that was  
13 not the issue we briefed but I want to indulge the Court --

14 THE COURT: But it is more than indulging the Court.  
15 The other side has said that one reason to be suspicious and  
16 one factor in the *Lear* analysis is essentially, under the  
17 circumstances here, this trademark, given the lineage, looks  
18 like the successor to a lapsed patent.

19 MR. MANCINI: I understand that that is their argument  
20 but I think if you look at the patent and if you look at the  
21 design in its claim and its unique anthropomorphic feature that  
22 I have described, I think the reasonable conclusion is that  
23 does not, it is something different that is claimed by the  
24 trademark.

25 THE COURT: I am asking you to pin down for me what

J9R5capA

argument

1 the trademark protects here that the patent didn't.

2 MR. MANCINI: So, I would say from memory that the  
3 aspects such as that belly design and that unique sort of  
4 conical bottom shape that suggests a smile, that that feature,  
5 that that design feature which is reflected and shown in the  
6 '917 registration almost suggesting a smile at the belly of it,  
7 is a unique feature of the design, almost like the very simple  
8 hourglass design that is the Coca-Cola bottle, that that is the  
9 iconic nature of this pouch and its shape.

10 THE COURT: Let me ask you, you have an exclusive with  
11 Kraft Heinz.

12 MR. MANCINI: Yes.

13 THE COURT: Does that preclude you from settling this  
14 case with ABC much as the prior case settled? In other words,  
15 if there were a settlement that gave ABC a license, is that as  
16 a matter of the agreement with Kraft Heinz unavailable?

17 MR. MANCINI: No, because of two reasons.

18 So, Kraft has exclusive license to the mark Capri Sun  
19 and a nonexclusive license to the pouch-shaped design.

20 THE COURT: I see. It is the pouch-shaped design that  
21 I am concerned about here.

22 MR. MANCINI: But I will expand even further to give  
23 the Court some comfort. In the agreements with Kraft that are  
24 confidential, by the way --

25 THE COURT: Which are or are not?

J9R5capA

argument

1           MR. MANCINI: Are confidential; Capri Sun has right  
2 the right to enforce its IP rights in the U.S. market with  
3 consulting Kraft. That's it.

4           THE COURT: But, in other words, there is nothing that  
5 would preclude you from licensing the body here, the design,  
6 putting aside the words, to somebody other than Kraft,  
7 including ABC if, as this litigation went forward, you decided  
8 that was the right course.

9           MR. MANCINI: Correct. And in fact we did in this  
10 case. We settled the prior litigation not only by means of a  
11 settlement agreement but a trademark license agreement that  
12 granted to the defendant's predecessor license to the pouch  
13 design --

14          THE COURT: All right. Very good.

15          MR. MANCINI: -- non exclusive license.

16          THE COURT: All right.

17          Assuming you win on the current motion, what is left  
18 of this lawsuit?

19          MR. MANCINI: What is left of this lawsuit is  
20 confusing similarity between the packages, which is what it  
21 should have only been about and which is why we were surprised  
22 that they tried to change the dynamic.

23          THE COURT: In other words, supposing that the defense  
24 of functionality is knocked out, which is essentially where you  
25 are going here, and therefore any discovery that is pertinent

J9R5capA

argument

1 to it; if that is knocked out then we have litigation as to  
2 whether what they're doing is or isn't confusing, you say yes,  
3 they say no. That's what the case is about, right?

4 MR. MANCINI: Yes, but it has two aspects.

5 So, if your Honor may recall, the license agreement in  
6 place previously giving the parties that settled the prior  
7 litigation with this no challenge clause, had essentially two  
8 triggers. There was a defined term that is licensed packaging.  
9 For licensed packaging, that was the package that they actually  
10 sold pursuant to the settlement and license agreement that  
11 settled the prior case before Judge Wood. That has a run off  
12 period or sell off period sometimes referred to in trademark  
13 law. If they continue to sell those products post that period,  
14 no analysis is required, that's prohibited -- and we think they  
15 are --

16 THE COURT: Sell what products, though? In other  
17 words, they may contend, rightly or wrongly, that what they are  
18 doing is outside the prohibition of the agreement. They may  
19 have some feature of what they're selling that is outside the  
20 parameters here. Does the settlement agreement simply run to  
21 the perimeter of the patent of the trademark or does the  
22 settlement agreement knock them out of this industry entirely?

23 MR. MANCINI: No, it does not knock them out of this  
24 industry, it does two things. The first that I was referring  
25 to is they can't continue to sell the license products. Think

J9R5capA

argument

1 of it as something that is virtually identical as to what they  
2 sold before. The second thing it does, they cannot sell a  
3 confusingly similar package to the trademark.

4 THE COURT: Okay.

5 MR. MANCINI: So the Court wouldn't have to analyze if  
6 the slightly rounded edges at the top, if all the other  
7 features are the same means it is confusingly similar.

8 THE COURT: I see.

9 So, does that right, though, go any farther than the  
10 rights you already have under trademark? In other words,  
11 confusingly similar is familiar to me from trademark law. Is  
12 there a right you achieve under the settlement agreement that  
13 exceeds the statutory right you have, assuming a valid  
14 trademark?

15 MR. MANCINI: No. I think we discussed this, your  
16 Honor may recall, in the April status conference.

17 THE COURT: Yes.

18 MR. MANCINI: We believe that that right is  
19 coterminous with our rights under trademark law and that's why  
20 it is drafted that way.

21 THE COURT: Understood.

22 So, in the end, if you are right in knocking out  
23 functionality and therefore the trademark is valid, the  
24 litigation proceeds but essentially on the issue of confusingly  
25 similar whether cast as a settlement agreement issue or a

J9R5capA

argument

1 Lanham Act issue.

2 MR. MANCINI: Correct, your Honor.

3 THE COURT: Okay. Very good. Thank you. Very  
4 helpful.

5 Let me begin with you, Mr. Krumholz.

6 MR. KRUMHOLZ: Yes.

7 THE COURT: How come your client settled the previous  
8 case?

9 MR. KRUMHOLZ: That wasn't our client.

10 THE COURT: I know but I mean, for better or worse,  
11 for rich or for poor, you are their advocate; how come they  
12 settled the earlier case?

13 MR. KRUMHOLZ: Well, the reason I raise that is I can  
14 only speculate as well as you.

15 THE COURT: Well, but that may not be good enough. In  
16 other words I am trying to -- that's not actually right. I  
17 mean you represent a client so I am asking you, on behalf of  
18 your client you bound yourself to a settlement agreement saying  
19 you are not going to do exactly what are you doing here. Why  
20 did your client do that?

21 MR. KRUMHOLZ: I'm sorry. I don't mean to be dancing  
22 around it but Faribault entered into the agreement without  
23 ABC's input or involvement.

24 THE COURT: Sorry. Look. ABC then --

25 MR. KRUMHOLZ: Okay --

J9R5capA

argument

1 THE COURT: Sorry. Sorry. Sorry. If that's what you  
2 are going to say we are about to go down this five-minute  
3 detour.

4 What diligence, if any, did ABC do before buying this  
5 product line of its successor? Did ABC look into the  
6 potentially preclusive quality of the settlement in the prior  
7 litigation before it bought this business line?

8 MR. KRUMHOLZ: It certainly knew about the settlement  
9 agreement and the terms of the settlement agreement at the time  
10 it acquired the company, yes.

11 THE COURT: Did it believe -- and so it knew, when it  
12 acquired the company, that it was potentially bound by the  
13 settlement agreement. Period. Right?

14 MR. KRUMHOLZ: Well, it certainly agrees that it is  
15 bound, certainly understood then and agrees now that it is  
16 bound by the settlement agreement. We are not seeking to  
17 terminate the settlement agreement, just one provision within  
18 it.

19 THE COURT: No. But it understood that it was taking,  
20 with knowledge of the no challenge provision, right?

21 MR. KRUMHOLZ: Yes.

22 THE COURT: And so, look. I appreciate that it may be  
23 a little harder as counsel for ABC to reconstruct the state of  
24 mind of the predecessor company but you can understand, as  
25 Judge Wood's colleague in this court house, how it looks for



J9R5capA

argument

1 you to say *'no, we won't. No, we won't. No, we won't, we will*  
2 *settle for value. Oh, never mind. Yes, we will.'*

3 MR. KRUMHOLZ: Right.

4 THE COURT: If these cases had been before me I would  
5 have been appalled by the dishonesty of having your fingers  
6 crossed behind your back saying we are going to settle and  
7 agree not to challenge and then to say *'just kidding.'*

8 MR. KRUMHOLZ: Well, I would make a few observations.

9 One is, from ABC's perspective, when they decided to  
10 terminate the license agreement, they terminated the license  
11 agreement with the understanding that they were not infringing  
12 the trademark, they don't believe they're infringing the  
13 trademark so the action was taken not with some grand scheme to  
14 say we are going to attack functionality. The action was taken  
15 because they did not believe and do not believe now that there  
16 is infringement.

17 THE COURT: That's great. That's the residual issue  
18 in the lawsuit if the front table wins the dispute before me  
19 now. The question is, you chose to answer with a defense of  
20 functionality. That's a choice, but the settlement agreement  
21 you entered into signed off on by my esteemed colleague says  
22 you won't do just that.

23 MR. KRUMHOLZ: But I would say -- well, two things.  
24 One, just as an aside, we believe functionality is part of the  
25 infringement analysis but we will deal with that separately.

J9R5capA

argument

1 But what you are talking about, we totally understand,  
2 but it is also the exact same position that the licensee was in  
3 in *Lear*, it was the exact same position the licensee was in  
4 *Rates Technology*, the exact same position that the licensee was  
5 in in *Idaho Potato*. In fact, if anything, it was more so there  
6 because they did sign on the dotted line and we took  
7 responsibility later

8 THE COURT: Look. *Rates* sets out a very useful stage  
9 by stage assessment of how the law applies with the broad  
10 take-away being the deeper you get into the litigation process  
11 the more there is a public policy interest in enforcing  
12 settlement.

13 This settlement was entered into in this court, in  
14 litigation in this court just a few years ago, just a couple  
15 years ago. Was it three years ago? Something like that? And  
16 now you're seeking a Mulligan and I am trying to understand  
17 what the thought process was.

18 MR. KRUMHOLZ: So, the thought process from a  
19 going-forward basis, so for ABC, which is where I am most  
20 comfortable talking about it, is that we did not expect to get  
21 sued for infringement because we don't believe we have  
22 infringed. Having found ourselves in court here before your  
23 Honor, we believe we should have all the defenses available to  
24 us to defend it. Now, I will say, had I been involved in that  
25 prior lawsuit I would have given the advice I have given every

J9R5capA

argument

1 client which is if you are going to give a no contest provision  
2 you have a caveat that if you are sued again you can raise it  
3 then.

4 THE COURT: But, look. If you are sued again, if your  
5 client gets into this market and starts selling a juice pack,  
6 your client knows that Capri Sun is going to be alert to the  
7 competing product and will make its own judgment whether or not  
8 they've got a viable infringement suit. They may or may not be  
9 right or wrong about confusing similarity but it can't be that  
10 this turns on who files the lawsuit because if it turns on  
11 that, then all you would do would be put out there some  
12 competing product and wait for Mr. Mancini to sue you and then  
13 you can say, well, because you're the nominal, we are only the  
14 defendant, we get to avoid the agreement. It can't be that who  
15 is the P and who is the D affects anything unless the  
16 settlement agreement says that.

17 MR. KRUMHOLZ: I don't believe that what I said  
18 impacts the legal analysis. I was trying to answer the Court's  
19 question as to what the thought process was with the client.

20 THE COURT: Look. You are playing a hand you were  
21 dealt by predecessor counsel to the predecessor company, but in  
22 the end you're ABC took with knowledge. When ABC bought the  
23 predecessor company did it intend to put a product out on the  
24 market along the lines of what it is presently selling?

25 MR. KRUMHOLZ: It was selling product -- I mean, if

J9R5capA

argument

1 you are asking whether it intended at the time of purchase to  
2 terminate the license agreement and then sell the present  
3 product --

4 THE COURT: Right. That's right, it had a license  
5 from Capri Sun.

6 MR. KRUMHOLZ: Right.

7 THE COURT: And then it terminates the license. Is  
8 what it is selling after terminating the license identical to  
9 what it was selling before terminating the license?

10 MR. KRUMHOLZ: That is kind of a yes and no. It went  
11 back to what was identified by Capri Sun as not infringing.

12 THE COURT: Okay.

13 MR. KRUMHOLZ: So we have a period where they were  
14 not -- there was no claim of infringement, then we had a new  
15 product line which they claimed infringed, then when we  
16 decided, when ABC decided that it didn't need the license  
17 agreement anymore because it could go and just basically sell  
18 what it previously not been accused of infringement, that was  
19 the thought process.

20 THE COURT: So, in other words your client, after  
21 terminating the settlement agreement and the license that came  
22 with it, made a modification in what it was selling so as from  
23 your client's perspective to steer around the obstacle  
24 presented by the Capri Sun trademark.

25 MR. KRUMHOLZ: Yes. That's fair.

J9R5capA

argument

1 THE COURT: And now that Capri Sun has said, no, you  
2 actually are selling something confusingly similar, in addition  
3 to defending on the grounds that it is not confusingly similar  
4 you want to go back and do what the settlement agreement says  
5 you can't do which is to challenge the validity of the  
6 trademark.

7 MR. KRUMHOLZ: Yes. And I should be clear, your  
8 Honor, I am not making light in any way of the sanctity of an  
9 agreement, of the sanctity of the settlement agreement, of the  
10 sanctity of res judicata. I am looking at what the law tells  
11 us.

12 THE COURT: Well, the law may or may not allow to you  
13 do what you are doing, that's the issue before me. I am just  
14 trying to understand what the thought process was. Let's go  
15 back to the settlement process. It is not disputed, is it,  
16 that the settlement occurred 27 days before the end of the fact  
17 discovery period, correct?

18 MR. KRUMHOLZ: I think that -- I believe that's  
19 correct.

20 THE COURT: Do you disagree with Mr. Mancini's  
21 description of essentially how the settlement came about which  
22 is essentially that, early on, business folks from both  
23 companies took ownership of the settlement process and worked  
24 it out, and because that was in progress essentially there was  
25 an agreed slow down or stand still as to, actually, the

J9R5capA

argument

1 production of discovery?

2 Is that a fair characterization?

3 MR. KRUMHOLZ: I don't have any reason to dispute it.  
4 I can't affirmatively -- I am just trying to be candid with the  
5 Court. I can't affirmatively say that I know that that's what  
6 happened. I don't have a reason to dispute that that's what  
7 happened.

8 THE COURT: You are not aware of any case that --  
9 Look. This is formally a trademark case but it deals with a  
10 defense that has a strong echo of patent and so there is a  
11 little bit about this case, a quality of which is it more like.  
12 Do you have any case that in any way helps me on the  
13 proposition that a trademark case, where a functionality  
14 defense is being offered, ought to be analyzed pursuant to the  
15 patent law line of cases?

16 MR. KRUMHOLZ: No case that we haven't cited. I think  
17 it's by --

18 THE COURT: Is there a case you cited, though, that  
19 really sorts a case that is nominally trademarked as patent?  
20 Is there anything that -- that's what you are trying to do  
21 here, I fully understand why you are trying do it. I am trying  
22 to see if there is law that supports you.

23 MR. KRUMHOLZ: No. The answer is, no, there is no  
24 case law. Certainly, if we were aware of it we would have  
25 cited it. I think the closest we get is *Idaho Potato* tells us

J9R5capA

argument

1 that when we are doing the balancing test we have to look at  
2 the policies behind the defense.

3 THE COURT: Right.

4 MR. KRUMHOLZ: And I don't think there seem to be  
5 dispute as to what the policies are for the functionality test.

6 THE COURT: In other words, in your point of view once  
7 you talk about the functionality defense you are, for all  
8 intents and purposes, talking about patent.

9 MR. KRUMHOLZ: Yes.

10 THE COURT: Is it the case that anything that is  
11 functional is patentable?

12 MR. KRUMHOLZ: Well, no. It has to be new and novel.  
13 Merely being functional does not make it patentable, it has to  
14 be a new and novel function.

15 THE COURT: If that's the case then, just because  
16 there is an exception to trademark validity called  
17 functionality, why should I treat that as tantamount to patent?  
18 Maybe it is just an exception to trademarkability.

19 MR. KRUMHOLZ: Because we have to -- because it's  
20 tantamount in the sense that the policies are exactly the same.  
21 Right?

22 So, in *Idaho Potato*, where we are farther afield --

23 THE COURT: Right.

24 MR. KRUMHOLZ: -- we are dealing with a certification  
25 mark where the Second Circuit said, well, the defenses to that

J9R5capA

argument

1 certification mark touch upon free and open competition, that's  
2 analogous to making sure public ideas remain public, that  
3 trumps the sanctity of the contract so balance in favor of  
4 avoiding it.

5 Here we have a much stronger connection. Right? In  
6 fact, I mean the words in the cases are almost identical  
7 between what the policy behind the functionality defense and  
8 the policy behind an invalidity test on the patent side, right?  
9 Both are doing the exact same thing which is to ensure that  
10 ideas that should be dedicated to the public are dedicated to  
11 the public. I would actually go further and say that while  
12 that invalidity policy was enough in *Lear* and *Rates*, etc., it  
13 is even more compelling here because we are dealing with the  
14 possibility of an indefinite monopoly. Indeed, this case is a  
15 good example of that, we are talking about 50 years of  
16 monopoly.

17 THE COURT: Again, I suppose it depends on the level  
18 of generality with which the analysis is done but let me pursue  
19 with you a little bit what I pursued with Mr. Mancini.

20 The case law, let's assume now we are in the box, the  
21 analysis of a patent box. Let's assume I am persuaded by you  
22 that functionality, for all intents and purposes, turns us into  
23 a patent discussion and therefore the balancing test is  
24 consistent with the *Lear* line. Okay? Even indulging that,  
25 wouldn't one have to ask the question just because ABC tied its



J9R5capA

argument

1 own hands and made its own bed and settled before Kimba Wood  
2 and Judge Engelmayer, with respect to what happened in front of  
3 Judge Wood, why would that, as a practical matter, prevent  
4 other would-be members of the industry from challenging this  
5 trademark? In other words, we are not talking about something  
6 that appears to have massive barriers to entry. From the  
7 public policy perspective, why does the public care about ABC  
8 if others have the wherewithal to raise the issue? The public  
9 policy seems to be triggered more where sidelining a particular  
10 challenger injures the public. I am having difficulty seeing  
11 that here.

12 MR. KRUMHOLZ: Well, I would start first with the  
13 observation which you have made which is *Lear* and *Rates*  
14 *Technology* actually has express language that ABC is exactly  
15 the kind of player that should be out there given freedom to  
16 challenge --

17 THE COURT: But that originally comes in the context  
18 of a license agreement, either an applied estoppel or a literal  
19 statement in a license agreement. *Rates Technology* recognizes  
20 that the farther we go down the line in litigation, the more  
21 sanctified the settlement agreement is.

22 So, yes, I understand that you are, your client in one  
23 sense is the type of challenger that ought to be allowed to --  
24 that is incented to perform the role. In another hand, it is  
25 the worst possible challenger because of the, you know,

J9R5capA

argument

1     hypocrisy of saying, no, we won't and then saying, well,  
2     actually, we will.

3             MR. KRUMHOLZ: Who will be the other players be which  
4     is your question, right?

5             THE COURT: Yes.

6             MR. KRUMHOLZ: So, as we have heard there is just  
7     Heinz who doesn't seem to have any incentive to do it at this  
8     point in time. So, you need -- so somebody is not going to --

9             THE COURT: Why doesn't Heinz have an incentive to do  
10    that? I mean, they were in the same situation as you, they're  
11    a licensee. Presumably, if Capri Sun is protecting the  
12    unprotectable, they ought to, Kraft Heinz should be happy to  
13    stop having to pay Capri Sun and they must be paying a lot of  
14    money.

15            MR. KRUMHOLZ: You know, companies are litigation  
16    averse. It is not surprising to hear that a company does not  
17    want to be paying to have all these people sitting in a  
18    courtroom with an uncertain result when they could build it  
19    into their budget and move on.

20            THE COURT: Right.

21            MR. KRUMHOLZ: That's what companies do. Here we  
22    actually have somebody who has made the decision that they are  
23    willing to have this fight and are prepared for this fight.  
24    Now, if it is going to be somebody else I don't -- you were  
25    talking about a scenario --

J9R5capA

argument

1 THE COURT: You say your client didn't want this  
2 fight, you are saying your client was so confident that this  
3 was not confusingly similar that it was surprised to be sued.

4 MR. KRUMHOLZ: Yes, but now that we are here, we are  
5 prepared to have the fight.

6 THE COURT: Right.

7 MR. KRUMHOLZ: I mean because, yes --

8 THE COURT: The question is just whether you took an  
9 arrow out of the quiver.

10 MR. KRUMHOLZ: Understood. But to your specific  
11 question of incentive and dis-incentive when you find yourself  
12 in litigation you have a stronger incentive because it is a  
13 marginal additional cost --

14 THE COURT: Right.

15 MR. KRUMHOLZ: -- versus I have a stable relationship,  
16 I don't like paying lawyers, I have an uncertain result. It is  
17 a very different scenario between the two existing and former  
18 licensees.

19 THE COURT: How many other companies are in the  
20 single-size beverage business putting aside the packaging?

21 MR. KRUMHOLZ: I'm not comfortable making a  
22 representation on that. I will say we have -- let me just back  
23 track on that question a little bit?

24 THE COURT: Yes.

25 MR. KRUMHOLZ: ABC makes pouches, right, and has

J9R5capA

argument

1 related companies that will sell product, and it also sells to  
2 third-parties that sell juice products. So, the consequence is  
3 what it has been accused is multiple, different product with  
4 all different labels, all different brands that have been  
5 accused of infringement and then there are other players on the  
6 market --

7 THE COURT: Forgive me, it is a little -- I have got  
8 58-year-old eyes here.

9 MR. KRUMHOLZ: Yes.

10 THE COURT: Does this lawsuit implicate all of the  
11 products that are sitting in front of Ms. Rudenko?

12 MR. KRUMHOLZ: I think we have -- so we have --

13 MS. RUDENKO: Not this one or this one. Those two.  
14 Kool-Aid is the Kraft.

15 THE COURT: Sorry. A little louder for the court  
16 reporter. One person staging.

17 MR. KRUMHOLZ: So, we pulled out ones that are on the  
18 market that have not been accused and then there is --

19 THE COURT: Let the record reflect that counsel have  
20 arranged a bunch of the juice drinks and you are saying that  
21 half of them have been challenged and half of them have not?

22 MR. KRUMHOLZ: Correct.

23 THE COURT: So, if you are wrong about your right to  
24 challenge functionality, we would still be having a fight then  
25 called confusingly similar or not with respect to the ones that

J9R5capA

argument

1 have been challenged, correct?

2 MR. KRUMHOLZ: Right. And that analysis, and again I  
3 don't want to lose sight of what we believe to be the role of  
4 functionality in the likelihood of confusion analysis, the  
5 infringement analysis, but, yes, we would --

6 THE COURT: Finish the sentence and then I will ask  
7 you about that.

8 MR. KRUMHOLZ: Yes; the fight would be whether the  
9 consuming public would be somehow confused on the totality,  
10 with all these different labels, all these different brands,  
11 all in different coloring, that on the totality they somehow  
12 will think that these are all the same source, that this is all  
13 associated with Capri Sun.

14 THE COURT: Right.

15 MR. KRUMHOLZ: And it is our view that independent of  
16 the functionality piece, there is no way they're going to be  
17 able to show that.

18 THE COURT: And we are going to litigate that one way  
19 or the other, it sounds like. I mean, obviously, if you  
20 invalidate the patent, the trademark, it's another story.

21 MR. KRUMHOLZ: Right.

22 THE COURT: But if we don't, either because you can't  
23 litigate it or because you are allowed to litigate it and don't  
24 prevail, we are going to get there.

25 MR. KRUMHOLZ: Yes.

J9R5capA

argument

1           THE COURT: Help me with the point you just alluded  
2 to. Let's suppose I uphold the no challenge provision. You  
3 are saying that functionality nevertheless plays a role not in  
4 challenging the settlement agreement, not in challenging the  
5 trademark but it plays some role in the infringement analysis.  
6 Slowly walk me through how that would work.

7           MR. KRUMHOLZ: Sure.

8           So, you start with the Polaroid factors, there are  
9 multiple Polaroid factors. One of the Polaroid factors is  
10 similarity of the mark and the accused product. So, we would  
11 need to do a similarity analysis, right? *Stormy Clime*, a  
12 Second Circuit case, has told us how to do that analysis. You  
13 actually raised this the last time we were here which is what  
14 *Stormy Clime* talks about is doing a comparison along a  
15 continuum. You identify which features are similar, which  
16 features are dissimilar, and identify whether those are  
17 functional or nonfunctional. So, at the one end you have  
18 purely arbitrary features that are the same, right, and that's  
19 clear infringement. On the other hand, you have either no  
20 similarity or the only similarity are functional features and  
21 then you have the continuum where --

22          THE COURT: Sorry. Let's suppose there were 10  
23 features of this thing, this juice container. Would you be  
24 saying that if you are not allowed to challenge the trademark  
25 you would nevertheless say, well, look, there are seven things

J9R5capA

argument

1 here that are really purely descriptors, they're not functional  
2 and there are three that are functional? Suppose you came up  
3 with that conclusion. What would be the relevance of that?  
4 What would be the relevance of your isolating three  
5 characteristics that are functional in nature?

6 MR. KRUMHOLZ: Because the only -- the similarity has  
7 to be over the nonfunctional features.

8 THE COURT: I see. Okay.

9 MR. KRUMHOLZ: So, if we were going to look at the,  
10 you know, the totality, right, you would be looking at various  
11 features of the pouch, various features of the label, and many  
12 of these features are just aesthetic, which of these features  
13 are functional?

14 For instance, to your conversation earlier with  
15 counsel, this belly, this bottom part, and it goes to your  
16 question of what would the evidence be like, how we would  
17 develop it? There would be factual discovery but also expert  
18 discovery about can you make a product that stands up like this  
19 that is sturdy, not likely to fall over, without creating this  
20 gusset down here --

21 THE COURT: What is a gusset?

22 MR. KRUMHOLZ: This structure down here.

23 THE COURT: Right.

24 MR. KRUMHOLZ: -- without having it like a belly.  
25 Just stating the obvious. I am no expert but if you have

J9R5capA

argument

1 liquid all the way to the top, it makes it more top heavy and  
2 easier to knock it over.

3 THE COURT: It depends how big the belly is. If you  
4 squeeze it this way it looks William Howard Taft, a big belly,  
5 right? If you squeeze it this way, it's a thin guy.

6 MR. KRUMHOLZ: Right. And it needs to be able to do  
7 both of those things with children squeezing it and gushing at  
8 people, throwing it in the freezer and it freezing, it has to  
9 be durable, it has to be safe.

10 So, what we would have --

11 THE COURT: Why is there anything functional  
12 potentially about this other than the base so it stands up?

13 MR. KRUMHOLZ: So, the base certainly is the most  
14 prominent functional feature. Right? But this is actually a  
15 marvel in engineering back in its day and through to today  
16 because, I mean, flexible packaging is a science in and of  
17 itself. When we were looking for potential experts you are  
18 divided between regular packaging and flexible packaging  
19 because there is a lot of science that goes into tensile  
20 strength and size and shape, diameter. They talk about the  
21 fact that the side is straight. The side is straight because  
22 cost and efficacy are really the two factors of functionality  
23 that we would be talking about. Right? So, how do you do it  
24 cheaply and safely and well. Right? So having a straight edge  
25 is cheaper than having a curved edge.



J9R5capA

argument

1           THE COURT: So, in terms of functionality, to the  
2 extent you are challenging functionality, discovering  
3 functionality as a basis of the infringement analysis, would  
4 you essentially be inquiring of the same questions as you would  
5 be with respect to invalidity? Is the discovery essentially  
6 the same?

7           MR. KRUMHOLZ: Yes. I think so. I think you have to  
8 identify -- part of functionality is what are alternative  
9 designs. Right? So you have to identify, *Can I do this*  
10 *without this belly, this gusset?* Right? What would it look  
11 like and would that be competitive? If you can only do it this  
12 way --

13          THE COURT: Couldn't you clearly do it without the  
14 belly? If you had vertical struts here that essentially  
15 prevented the billowing, wouldn't that achieve -- you would  
16 still have the balance, it would just be thinner and you would  
17 avoid the belly.

18          MR. KRUMHOLZ: And higher cost and other unintended  
19 consequences.

20          I am not going to pretend that -- obviously neither  
21 one of you or -- we have talked with potential experts to hire  
22 if we get to go forward with this defense and there is an  
23 entire, there are laboratories about how to make this.

24          THE COURT: Yes.

25          MR. KRUMHOLZ: We are getting into, again, patent-like

J9R5capA

argument

1 issues about everything has consequences and unintended  
2 consequences and that would need to be developed factually and  
3 through experiments.

4 THE COURT: Let me ask you. The discovery demands in  
5 the prior case transferred to Judge Wood, did they explore the  
6 issues that you and I are now talking about?

7 MR. KRUMHOLZ: Yes.

8 THE COURT: Is there anything about the discovery  
9 demands in this case that would likely be materially different  
10 from the discovery demands that were put forward in that case?

11 MR. KRUMHOLZ: Probably not materially. I haven't  
12 looked --

13 THE COURT: Essentially.

14 MR. KRUMHOLZ: Same topics.

15 THE COURT: It is a do-over of that case, is it not?

16 MR. KRUMHOLZ: Not a do-over because discovery -- I  
17 don't think --

18 THE COURT: It would be up to the point of the 27-day  
19 mark, up to the point where the litigation stopped due to  
20 settlement. Save at the margin, this would be a do over.

21 MR. KRUMHOLZ: Yes. I guess I take issue with the  
22 word "do-over" because no discovery was produced.

23 THE COURT: Mulligan.

24 I don't mean it to be jaundiced. The point is that  
25 the play book, the pattern, the nature of the discovery sought

J9R5capA

argument

1 would essentially, up to the point at which the clock stopped  
2 and there is a settlement, would essentially be that case, the  
3 old case.

4 MR. KRUMHOLZ: Yes.

5 THE COURT: One moment. Let me just go back to  
6 plaintiff's counsel for a moment.

7 Let's suppose, hypothetically, you were to prevail in  
8 enforcing the no challenge provision. That would not mean,  
9 though, that functionality questions are irrelevant. Would  
10 they be to the infringement analysis? In other words, suppose  
11 there is something that is strictly functional even if there  
12 are other parts of this that are not. Is Mr. Krumholz right  
13 that a feature that is strictly functional could not be  
14 considered part of the trademark for the purpose of  
15 infringement analysis?

16 MR. MANCINI: So, if may indulge the Court? I would  
17 like to offer my associate an opportunity for a few minutes to  
18 rebut that point.

19 THE COURT: Yes.

20 MR. MANCINI: I think it is important for the Court to  
21 hear rebuttal on the *Rates* point as well, if we may.

22 THE COURT: Go ahead. That is Mr. Thomas?

23 MR. THOMAS: Yes. Good afternoon, your Honor.

24 THE COURT: Just move the mic close.

25 Let me just say good for you, Mr. Mancini. I always

J9R5capA

argument

1 salute counsel for giving younger lawyers an opportunity.

2 Go.

3 MR. THOMAS: So, as Mr. Mancini said, we will address  
4 the first question the Court asked about the potential  
5 relevance of trademark functionality to the Court's  
6 infringement analysis.

7 THE COURT: Right.

8 MR. THOMAS: And then we will also, if the Court will  
9 indulge us, discuss key differences between *Rates*. And turning  
10 to the first question, it is interesting because ABC relies  
11 extensively on *Stormy Clime* to stand for the proposition that  
12 absent the no challenge provision, functionality is somehow  
13 part of this particular Court's infringement analysis. And the  
14 first reason that that reliance on *Stormy Clime* is misplaced is  
15 that, as Mr. Mancini alluded to earlier, we have a federal  
16 trademark registration for our pouch mark. In *Stormy Clime*,  
17 the plaintiff is asserting a claim under Section 43(a) for  
18 unregistered trade dress. That's a fundamental difference  
19 because of the burden shifting that Mr. Mancini talked about.

20 THE COURT: But it doesn't take the issue off the  
21 table, it just shifts the burden over to them, right?

22 MR. THOMAS: Well, ABC is not wrong that functionality  
23 would be a part of this Court's infringement analysis. ABC is  
24 wrong about where in this Court's infringement analysis  
25 trademark functionality comes into play.

J9R5capA

argument

1           Now, as we cited in our opening brief and our reply  
2 brief, right down the hall, the Southern District of New York  
3 in *Louis Vuitton v. Dooney & Bourke*, that was a design mark  
4 case. It is clear in that case. And the literal subheading  
5 was trademark infringement under the Lanham Act. Subsection 1,  
6 validity of the mark. Subsection 1B, aesthetic functionality.  
7 And then what is the second subheading? Likelihood of  
8 confusion. The Court does not discuss trademark functionality  
9 and the context of likelihood of confusion. The Court  
10 discussed trademark functionality under the first step of the  
11 infringement analysis which, coincidentally --

12           THE COURT: Which is what?

13           MR. THOMAS: Which actually overlaps with the first  
14 question presented in this case which is trademark validity and  
15 protectability.

16           So, when you have a trademark registration, Section 32  
17 of the Lanham Act, the infringement analysis is two steps.  
18 Step one is validity and protectability which, again, is  
19 actually the first question presented in this case.

20           THE COURT: But as to that I am hypothesizing that you  
21 have neutralized the defense table's ability to raise that on  
22 account of enforcing the no challenge provision.

23           MR. THOMAS: Correct.

24           THE COURT: But look, just to twist the facts a bit  
25 here, indulge the hypothetical that in point of fact this was

J9R5capA

argument

1 only functional, entirely functional product, but that you have  
2 an enforceable settlement agreement that the Court would  
3 enforce, just indulge that hypothetical.

4 MR. THOMAS: Okay.

5 THE COURT: Then, when we get to infringement, how  
6 does the fact that there are at least significant functional  
7 dimensions to the trademarked thing play in? I mean, you have  
8 said a moment ago that functionality plays some role in the  
9 infringement analysis. How would that work?

10 MR. THOMAS: In that hypothetical?

11 THE COURT: Yes.

12 MR. THOMAS: It would not because, in the first step,  
13 trademark validity and protectability, the no challenge  
14 provision plainly expressly prohibits a direct challenge to the  
15 validity of the pouch trademark. Arguing functionality is a  
16 direct challenge to the pouch trademark's validity.

17 Now, in the second step, likelihood of confusion,  
18 there is eight Polaroid factors. Not one of them mentions  
19 functionality. In fact, if you look at *Stormy Clime* it is  
20 interesting because even though *Stormy Clime* has this  
21 distinction between Section 32, registered trade dress which is  
22 our case; Section 43A, unregistered straight trade dress in  
23 *Stormy Clime*, the Second Circuit in *Stormy Clime* discussed the  
24 aesthetic functionality doctrine and the context of  
25 protectability. That's the first step, not the second step.

J9R5capA

argument

1 In fact, the direct quote is, "we believe that the  
2 functionality inquiry in the present case should have focused  
3 on whether bestowing -- and here is the key language -- trade  
4 dress protection upon *Stormy Clime's* arrangement." There is no  
5 discussion of likelihood of confusion and that makes sense  
6 because consumers have associated this iconic pouch trademark  
7 with our client for 33 years.

8 THE COURT: Sorry. Let me try the hypothetical a  
9 little differently.

10 Suppose there are functional dimensions and  
11 nonfunctional dimensions here. The defense is not allowed,  
12 hypothetically, to challenge the trademark but wouldn't my  
13 analysis as to infringement properly focus only on the  
14 nonfunctional factors?

15 MR. THOMAS: Respectfully, your Honor, in the first  
16 step, in the no challenge provision, ABC's predecessor in  
17 interest expressly and not only did they agree not only to  
18 challenge the pouch mark's validity, they expressly  
19 acknowledged the pouch mark's validity. So, by doing that, the  
20 implication is it is not functional.

21 THE COURT: No, no, no. It means it is not entirely  
22 functional but it doesn't mean that there might be some aspect  
23 of that which is being protected here which is functional.

24 MR. THOMAS: So, if I understand the question it is  
25 that under the likelihood of confusion analysis, in particular

J9R5capA

argument

1 the second Polaroid factor, similarity of the marks, what I  
2 understand ABC's counsel to suggest is that this Court needs to  
3 parse out -- and again I am indulging a hypothetical here --  
4 the functional and nonfunctional, that's not proper. We are  
5 not before the trademark trial appeal board, we are in the  
6 federal district court. The Polaroid factors assess the  
7 overall commercial impression that trademarks create in the  
8 marketplace. So, it doesn't matter if it is a word mark or a  
9 logo or a slogan or, in this case, pouches. You assess how the  
10 consumers encounter these pouches in the marketplace and when  
11 consumers go to the marketplace --

12 THE COURT: I suppose that's right because the  
13 consumer is never going to have the hypothetical of removal of  
14 some structural feature, right?

15 MR. THOMAS: Exactly.

16 THE COURT: Then you are in a world that literally  
17 just doesn't exist.

18 MR. THOMAS: Consumers go to the grocery store, they  
19 see this iconic pouch, they have seen it for 33 years. They  
20 don't say, oh, I think this part is functional and then I see  
21 this pouch and, oh, that's not how it works. That's why you  
22 view the pouch's overall commercial impression.

23 THE COURT: What do I need to look at, from your  
24 perspective, to put to rest the defense claim that if the no  
25 challenge provision is sustained the functionality analysis



J9R5capA

argument

1 doesn't play a role in infringement.

2 What is the best cases or cases for you?

3 MR. THOMAS: So, I think there is two. I will start  
4 with our case which is, we cited in our opening brief, the case  
5 is *Louis Vuitton v. Dooney & Bourke*. The case number is 340 --

6 THE COURT: If it is in the brief, I'm fine.

7 MR. THOMAS: And, again, in that particular case -- I  
8 mean this is not, I am quoting.

9 THE COURT: That's one case. What else? You said two  
10 cases.

11 MR. THOMAS: Sure, *Stormy Clime*.

12 THE COURT: *Stormy Clime*. Okay.

13 MR. THOMAS: Several instances in that decision the  
14 Second Circuit discussed trademark functionality in connection  
15 with trade dress protection. Trademark protection and  
16 trademark validity are the first step in the infringement  
17 analysis.

18 THE COURT: I want to give everyone -- I want to  
19 adjourn shortly but you had a second point that you wanted to a  
20 address?

21 MR. THOMAS: Sure. It is a combination of *Rates*  
22 *Technology* and *Idaho Potato*.

23 I understood opposing counsel's argument to suggest  
24 that their client is in the same position as the licensees in  
25 those cases. Respectfully, that's not the case. And as the

J9R5capA

argument

1 Court is aware in this case, the settlement and license  
2 agreement is unique in the sense that it is both, it is a  
3 trademark litigation settlement agreement and it is also a  
4 trademark license agreement. That wasn't present in *Lear* or in  
5 *Idaho Potato*.

6 THE COURT: Right, but I mean I am focusing on the  
7 settlement part because the license agreement part appears, in  
8 the case law, not to get a ton of weight if we are in the  
9 patent area. So, indulging that this is properly analyzed by  
10 the *Lear* line of cases, we have here the circumstance of a case  
11 that went deep into the discovery period although, as it  
12 happens, the lawyers were promptly talking settlement and  
13 didn't respond to the discovery demands that were promulgated.

14 How does that compare and contrast, first of all, to  
15 *Rates*?

16 MR. THOMAS: So, that's interesting.

17 As the Court has alluded to, *Rates* sets out this very  
18 nice framework where at the time the Second Circuit authored  
19 that decision, they were envisioning four scenarios where a no  
20 challenge provision could be within something titled Agreement.  
21 And the specific scenario before the Second Circuit in *Rates*  
22 was a no challenge provision in a patent settlement agreement  
23 but the key distinction was it was a pre-litigation settlement  
24 agreement.

25 THE COURT: I understand. And this is a

J9R5capA

argument

1 post-litigation.

2 MR. THOMAS: Correct.

3 THE COURT: But it is also the case that all agree  
4 that no consequential discovery in fact happened. And so *Rates*  
5 also, Judge Lynch also says there the formality of initiating a  
6 lawsuit can't transform, by quality, qualitatively, a license  
7 agreement into not carrying the day to carrying the day. On  
8 the other hand he basically says, you know, if you go very far  
9 down the road in litigation, it is different. And so, you have  
10 a -- you know, you have got kind of a litigation interrupted  
11 quality here of, you know, we have talked about it, there are  
12 47 days away but very little discovery. The question is how  
13 that fact pattern which is, you know, where the settlement  
14 occurs at some point in the litigation that is certainly not at  
15 the beginning of the litigation but it also isn't deep into  
16 actual discovery even if it is deep into the discovery  
17 calendar. How do you analyze that?

18 MR. THOMAS: Sure.

19 So, in *Rates* the Second Circuit in discussing that  
20 fourth scenario, which we are in here, discusses the  
21 possibility of a no challenge provision being in a litigation  
22 settlement agreement. And the Court said, and this is the key  
23 language, is that when you agree to the no challenge provision  
24 in a litigation settlement agreement, what is significant is  
25 that you had the "opportunity" to take discovery on validity.

J9R5capA

argument

1 And the citation that the Second Circuit had in *Rates* was to  
2 *Flex-Foot*. And as *Flex-Foot*, quite frankly we quote in our  
3 brief, if you just stake the word "patent" out of the Court's  
4 holding in *Flex-Foot* and you put "trademark" in, that is the  
5 exact fact pattern that we have here.

6 And, as we also discuss in our reply brief at page 7,  
7 as you said we are 27 days away from the close of fact  
8 discovery. We also discussed how ABC's predecessor served  
9 rather extensive discovery. That is opportunity by any other  
10 name.

11 THE COURT: Did Judge Wood sign off on the settlement  
12 agreement or is it simply a notice of voluntary dismissal?

13 MR. THOMAS: The parties filed, on July 21, 2016, a  
14 proposed stipulation and order. The next day, July 22, 2016,  
15 Judge Wood So Ordered that.

16 THE COURT: Right, but some settlement agreements are  
17 made part of the court record and are adopted so that, for  
18 example, a breach of the settlement agreement would then be --  
19 could then be pursued as a federal court matter as opposed to a  
20 contract action somewhere else. Was the settlement agreement  
21 made part of the court record?

22 MR. THOMAS: No.

23 THE COURT: Let me just take a moment with my staff  
24 for a moment to see if I have other questions.

25 (pause)

J9R5capA

argument

1           THE COURT: I will try one more time to see if anybody  
2 has got any authority that deals with the somewhat hybrid  
3 quality of trademark case functionality defense. I understand  
4 each of you has your arguments about why this ought to be seen  
5 in the first instance as a trademark problem or as a patent  
6 problem. I guess the answer -- I have now put it to you a  
7 couple of times but supposing I were to see the case as sort of  
8 a hybrid, that it is sort of straddling the two areas. How  
9 would that change the analysis?

10           Briefly, Mr. Krumholz?

11           MR. KRUMHOLZ: So, if I understand the question, I  
12 think if there was a case that -- can I have the question  
13 again?

14           THE COURT: Yes. I have pretty much asked it before  
15 but what is analytically tricky about the case, among other  
16 things, is that the functionality analysis is formally arising  
17 in trademark but has a strong echo of patent. I get each of  
18 your arguments as to why it ought to be, in the first instance,  
19 put in the category you prefer and maybe there is simply a  
20 third way in the middle but, in the end, there is no case law  
21 that seems to guide me on that. I understand the appeal from  
22 first principles of the defense argument, I understand the  
23 appeal from the classification of this is a trademark case from  
24 the front table but it doesn't look like there is a case that  
25 guides me as to what to do with this problem.

J9R5capA

argument

1 MR. KRUMHOLZ: I think there are lots of cases that  
2 guide you. I don't think there is a case on all fours.

3 THE COURT: There is no case here that deals with  
4 functionality that sort of says if it is functionality it ought  
5 to be seen as patent.

6 MR. KRUMHOLZ: Correct. And I know everybody needs to  
7 go and I need to catch a plane so I am as interested as anybody  
8 but there is one thing I need to correct.

9 THE COURT: One thing.

10 MR. KRUMHOLZ: We got to the nub of it on the  
11 discovery on *Rates Technology* and counsel said *Flex-Foot* was on  
12 all fours. In *Flex-Foot* there was full discovery and summary  
13 judgment.

14 THE COURT: All these other cases are arising  
15 essentially on the pleadings, right? I mean, for example,  
16 *Rates* is a pleadings case?

17 MR. KRUMHOLZ: *Rates* is, yes, I think it is a  
18 pleadings case. But, yes, but the Second Circuit used the  
19 words it is significant to us, when talking about this issue of  
20 discovery, it is significant to us that the parties "have  
21 conducted." Those are, twice it says "have conducted" when it  
22 talks about the policy reasons why discovery is important which  
23 is it shows that people made a knowing decision.

24 THE COURT: The problem is, you know, if it seems to  
25 be acknowledged that corporate big wigs of the company were

J9R5capA

argument

1 engaged with this and made a considered decision to suspend the  
2 provision of discovery so they could settle the case. I mean,  
3 to the extent what we are concerned about is that the parties  
4 took the case seriously and that there is meaning to what they  
5 did when they decided to settle on a no challenge basis,  
6 everything about this all but screams that it was taken  
7 seriously at the highest levels.

8 MR. KRUMHOLZ: I would agree that the case was taken  
9 seriously but the question is whether the defense was taken  
10 seriously and I would argue the opposite, that when there is  
11 the opportunity to take discovery and one chooses not to take  
12 it -- look. The Second Circuit said, look, by taking discovery  
13 you are telling me that you have fully, you have full knowledge  
14 when you decide to waive your right and that you have taken  
15 this defense seriously. The opportunity to take discovery and  
16 the choice not to take it is just the opposite.

17 THE COURT: I understand each of you has a different  
18 spin on it. Unless there is a case beyond asking me to parse  
19 that linguistic dimension of *Rates*, is there anything further  
20 that says it's the response to the discovery rather than the  
21 discovery demands that is determinative? Is there anything you  
22 have beyond the form of words used there?

23 MR. KRUMHOLZ: No.

24 THE COURT: Okay.

25 MR. MANCINI: Your Honor, may I? I know it is very

J9R5capA

argument

1 late. I think there is a case on point.

2 THE COURT: Give me the cite.

3 MR. MANCINI: *Paperlet Company v. Shepherd Specialty.*  
4 *Flex-Foot* only required litigation to be initiated, thereby  
5 proceeding an opportunity for the challenger to conduct  
6 discovery on validity issues.

7 THE COURT: Although *Rates* basically says the mere  
8 filing of the lawsuit, which is an opportunity for there to be  
9 discovery, doesn't cut it, so *Rates* implies that the mere  
10 filing, which carries with it the opportunity, doesn't get you  
11 there. So, I think there is some purchase to Mr. Krumholz'  
12 point that something more than filing, which carries with it  
13 the right in court to take discovery, has to happen.

14 All right. I think I have heard enough. Thank you.  
15 I do need to return the care package because I think if I have  
16 a sip of the Capri Sun I will be conflicted. But, I thank you.

17 This has been extremely helpful. It is an unusual  
18 problem on my docket and it appears in the case law; I am  
19 looking forward to digging into it more. At this stage I take  
20 it all are in agreement that the case is not moving forward  
21 until I clear away these motions, correct?

22 MR. MANCINI: If I may address that, your Honor?

23 The parties are about to come to your Honor with an  
24 interim measure, mindful of the case management order, to  
25 extend internal deadlines on the fact discovery front by 90



J9R5capA

argument

1 days that do not address the ultimate deadlines.

2 THE COURT: Let me see if I have got this right  
3 because I am now going to resolve this and I cannot tell you on  
4 what time table. You want to make sure that you have conformed  
5 the other deadlines in the case to the fact that this issue is  
6 sub judice.

7 MR. MANCINI: Yes, but depending how long your Honor  
8 takes, we may need to revisit.

9 THE COURT: That's fine. Look. Get me an agreed  
10 Order along those lines, in effect, to preserve the rationality  
11 of the schedule given that I am only now digging into this and  
12 have other things on my docket, I would be happy to  
13 accommodate. The last thing I want to do is create a mouse  
14 trap that doesn't work for you.

15 MR. MANCINI: Thank you.

16 THE COURT: Thank you. We stand adjourned. Safe  
17 travels.

18 o0o